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THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Establish a Demonstration Climate Protection Program and Tariff Option	Application 06-01-012

OPENING COMMENTS OF THE UTILITY REFORM NETWORK ON
THE ALTERNATE DECISION OF COMMISSIONER PEEVEY

TURN
affordable utilities
livable communities

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OPENING COMMENTS OF THE UTILITY REFORM NETWORK ON THE ALTERNATE DECISION OF COMMISSIONER PEEVEY

Pursuant to Rule 14.3, The Utility Reform Network (TURN) hereby files comments on the Proposed Alternate Decision (PAD) of Commissioner Peevey on the application of Pacific Gas & Electric (PG&E) seeking to establishment of a Climate Protection Tariff (CPT). TURN does not support the changes made in the PAD and urges the Commission to adopt the original Proposed Decision of ALJ Thomas subject to the modifications described in previous comments.

I. Allocating Administrative and Marketing costs to participants is warranted because the CPT is not comparable to other voluntary programs

The PAD rejects efforts to allocate a meaningful share of Administrative and Marketing (A&M) costs to participants in the CPT. Arguing that this treatment is consistent with the recovery of A&M costs for other voluntary programs, the PAD argues against participant ratepayer funding because of the "core rationale" that "the public benefits derived from the deployment of energy efficiency and distributed generation exceed the private benefits."[1] This characterization of the rationale for the Commission's allocation of A&M costs for solar, distributed generation and energy efficiency programs misses a fundamental distinction relevant to the consideration of the CPT.

As the Commission is well aware, the other voluntary public goods programs (efficiency, distributed generation, solar) are intended to provide specific tangible economic benefits to all customers through impacts on the price and supply of energy resources. For example, the legislation authorizing the California Solar Initiative requires that "a solar initiative should be a cost-effective investment by ratepayers in peak electricity generation".[2] Similarly, the Commission requires that energy efficiency programs meet rigorous cost-effectiveness tests. As

[1] PAD, Page 15.
[2] California Public Resources Code §25780(B).

a result, these programs provide concrete benefits to all consumers in the form of increased supply (or reduced demand) and lower costs associated with energy and capacity in the market. In other words, these resources are properly understood as alternatives to other generation-related investments which IOUs could make to serve their ratepayers.

While energy efficiency programs must be cost-effective in order to merit broad-based ratepayer funding, TURN has demonstrated that the CPT approach selected by PG&E is <u>not a cost-effective strategy</u> for achieving GHG reductions.[3] The cost-effective approach identified by TURN involves direct ratepayer funding for GHG reduction purchases without the tremendous expense associated with efforts to elicit voluntary subscriptions.[4] By comparison, PG&E's approach could prove to be 50% more expensive on a $/ton basis. Even under the most optimistic scenario outlined in the application (assuming "high participation"), PG&E proposes to spend $0.55 to raise $1 of voluntary contributions.[5] Adopting a more modest set of expectations, PG&E could easily spend more M&A costs than are raised through voluntary contributions. By comparison, the Commission has proposed to allocate 10% of California Solar Initiative costs to program administration.[6]

The extremely high ratio of CPT overhead to anticipated customer donations creates a presumption that the program is not cost-effective. The high overhead of the CPT program, and the lack of cost-effectiveness, distinguishes the CPT from any of the other programs identified by the PAD. Given this reality, ratepayers should not be forced to fully subsidize the CPT when other options exist which can achieve the same objectives at a lower total cost.

Moreover, the CPT is more akin to a charitable donation program. PG&E's own witnesses conceded that customer participation in the CPT will be driven by the same motivations

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[3] TURN Opening Brief, Pages 13-15.
[4] TURN opening brief, pages 4-6
[5] TURN Reply Brief, Pages 8-9.
[6] Proposed Decision Of Commissioner Peevey Modifying Decision 06-01-024 And Decision 06-08-028 In Response To Senate Bill 1, R.06-03-004, Page 27

applicable to charitable donations.[7] For other charitable donation opportunities provided by PG&E to its customers (such as the REACH program), the administration and marketing costs are borne by shareholders. The CPT falls into this category of programs and should be treated accordingly.

Finally, the PAD posits that allocating any amount of A&M costs to participants will severely reduce participation levels.[8] In reaching this conclusion, the PAD takes an even more conservative view than PG&E, whose witness agreed that since the Hiner study found a participation "sweet spot" at a 4% bill impact, this level appropriately represents a breakpoint for purposes of benchmarking the reasonableness of the CPT premium.[9] In contrast to PG&E's own representation of the Hiner study, the PAD suggests that assigning any A&M costs to participants could "risk program failure."[10] It is not clear how increasing the CPT bill impact from 3% to 4% could result in such a dramatic reduction in customer interest in the program. The PAD does not offer any explanation to support this finding other than stating a preference to maximize participation. While the goal of increased participation has surface appeal, TURN does not believe that this single objective justifies insulating participants from any share of the costs incurred to serve them under the program.

If the Commission insists upon allocating A&M costs to all ratepayers, it should adopt the remaining recommendations in these comments in order to guarantee accurate marketing materials and equitable inter-class allocation of costs. Moreover, the Commission should consider reducing the total A&M budget to reduce the impacts on non-participating customers.

II. If Ratepayers are responsible for 100% of program marketing costs, all marketing materials should clearly state the source of this funding

[7] RT Vol. 2, Pages 340-341, Counihan. Ex. 3, Hiner Survey ("It May Be That PG&E's Customers Think About This Tariff As A Charitable Donation.")
[8] PAD, pages 17-18.
[9] RT Vol. 2, Page 347, Counihan.
[10] PAD, page 18.

If the Commission adopts the PAD and requires that marketing costs be spread across all ratepayers, this fact should be made clear on all materials sent to customers. TURN is concerned that PG&E's "marketing" campaign will imply that PG&E shareholders are responsible for producing and distributing educational materials related to the CPT. This concern is supported by PG&E's recent annual report, in which the company explains that "A proposal we now have before the California Public Utilities Commission seeks to launch a first of its kind climate protection program which invites customers to <u>join us in our efforts</u> to cut greenhouse gas emissions."[11] This phrasing creates the incorrect presumption that PG&E shareholders have made a specific commitment to funding reductions in greenhouse gas emissions. PG&E's proposed CPT marketing materials are expected to create a similar misperception in the minds of customers.

In order to clarify that all of the costs of the program are paid by participants and non-participant ratepayers, TURN recommends that PG&E be required to clearly state on all marketing and education materials that the CPT program is "paid entirely by PG&E customers". This acknowledgement will limit the potential for ratepayers to misconstrue the source of support for the program.

III. Any costs allocated to non-participants should be spread using an equal cents per kilowatt hour methodology

The PAD considers and rejects the proposal from all ratepayer advocates to allocate any Administration and Marketing costs collected from non-participants on an equal cents per kilowatt hour basis. Based on PG&E's claim that "90% of CPT customers will be residential, but will bear only 48% of A&M costs", the PAD decides that it is reasonable to allow PG&E to use its preferred methodology and collect these costs as a distribution-related expense.[12] This

[11] Ex. 201. [<u>Emphasis Added</u>]
[12] PAD, Page 30.

conclusion is based on faulty analysis and lacks any historical perspective on the approach to the inter-class allocation of various utility costs.

For starters, the PAD misconstrues the significance of the expectation that 90% of CPT customers will be residential. This fact is not persuasive because it fails to acknowledge that the residential class represents approximately 88% of total PG&E bundled service customers.[13] In truth, the expected participation of residential customers in the CPT is practically identical to the portion of total PG&E customers represented by the residential class. The reasoning in the PAD is flawed because allocating costs based on the raw numbers of customers participating in a voluntary program is not consistent with any accepted ratemaking principle. Moreover, it is inconsistent with the PAD's claim that A&M costs should be "allocated more broadly" given the "widely dispersed" benefits of the program.[14] If the CPT truly provides "widely dispersed" benefits to all ratepayers, why should A&M costs be allocated on the basis of expected customer participation within each class?

In contrast to the proposed outcome in the PAD, residential customers are typically allocated certain public purpose program revenue requirements on an "equal percent of revenue" or "equal cents per kilowatt hour" basis. Several other revenue requirements for programs providing broad benefits (nuclear decommissioning, DWR bonds, and certain transmission rates) are allocated on an equal cents per kilowatt hour.[15] In its pending General Rate Case, PG&E proposes to allocate energy efficiency costs on an equal percent of revenue basis despite the fact that some of these programs (low-income energy efficiency) do not include any participants outside of the residential class.[16]

[13] See Ex. PG&E-8, Page 4-8, A.05-12-002 (PG&E GRC 2007). This Document is cited pursuant to Rule 72.
[14] PAD, Page 14.
[15] RT Vol. 3, Pages 488-489, Luboff.
[16] RT Vol. 3, Pages 488-489, Luboff.

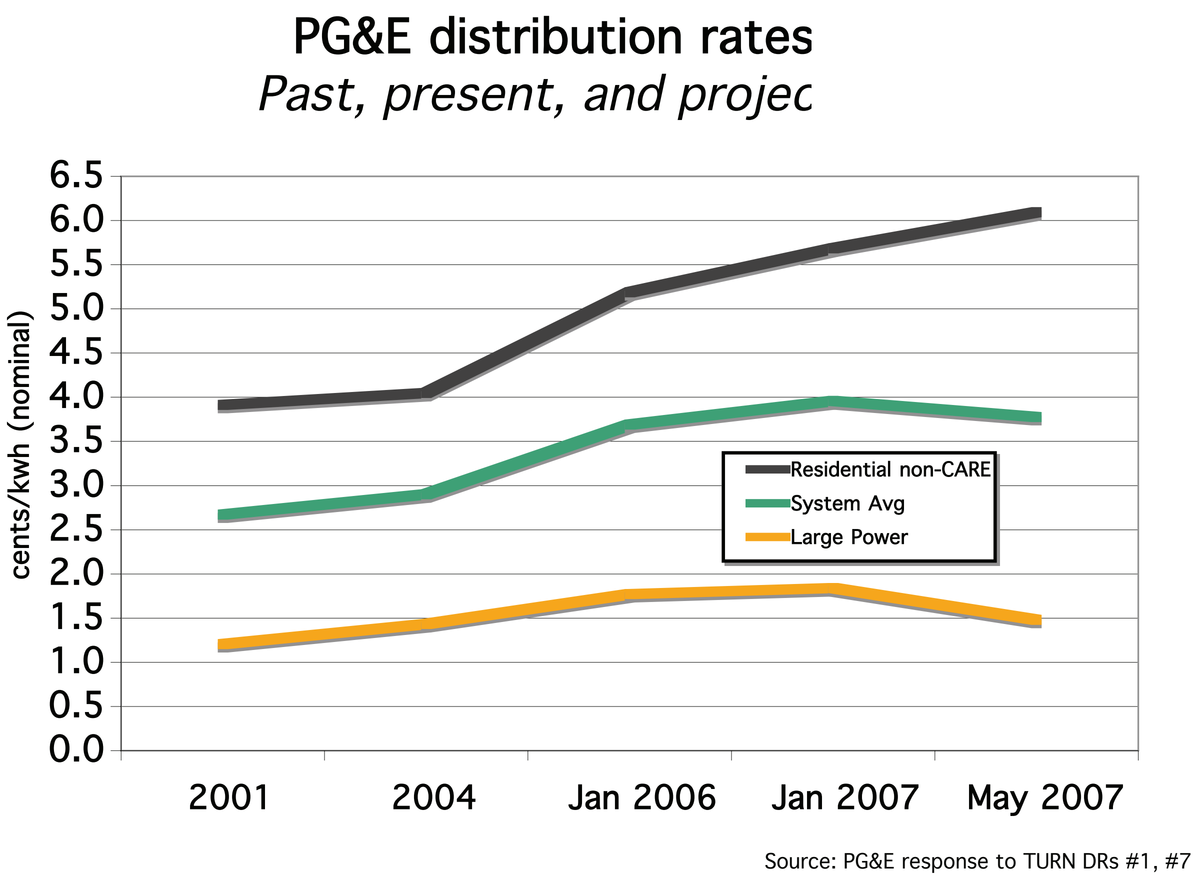
Similarly, PG&E's CARE program costs are currently allocated as equal cents per kWh despite the fact that 100% of CARE participants are residential customers. The Commission has repeatedly upheld this approach for the collection of CARE program costs for all utilities.[17] This allocation reflects the principle that the cost burden for public purpose initiatives is more appropriately correlated with sales to a customer class. For environmental programs, the Commission previously agreed with this principle in allocating the gas portion of the Self-Generation Incentive Program (SGIP) on an equal cents per them basis, explaining that such an approach is "consistent with our view that all customers should pay for programs that provide environmental benefits."[18]

In contrast to the approach taken for the above-referenced programs, PG&E proposes to base the allocation of CPT costs on the marginal cost of building distribution infrastructure to serve each class of customers. This proposal is not based on any attempt to assign CPT benefits to specific customer classes.[19] Since the Commission has never adopted the position that CARE (or other public purpose program) costs should be allocated on the basis of the marginal cost of distribution service, the PAD's proposal should be recognized as a radical departure from historical practice. If applied to other public purpose program costs, this outcome could result in severe and pervasive rate impacts for residential customers.

The PAD suggests that residential customers would pay 48% of CPT A&M costs under PG&E's approach. This figure is at odds with PG&E's own proposal in Phase 2 of its current General Rate Case (A.06-03-005). Under PG&E's preferred approach, residential customers would be assigned 57% of distribution costs.[20] If adopted, PG&E's methodology would cause residential distribution rates to rise to unprecedented levels. The PAD would countenance and encourage

[17] D.89-09-044, 32 CPUC 2d 406; D.96-04-050, 65 CPUC 2d 362, 412; D.00-06-034 (P.65).
[18] D.05-06-029, Page 17.
[19] RT Vol. 3, Page 469, Luboff.
[20] A.06-03-005, See Testimony Of William Marcus And Michel Florio On Marginal Cost, Revenue Allocation, And Residential Rate Design For PG&E, Page 54

this cost shifting effort. The following graphic illustrates the trend towards disproportionately allocating what are classified as "distribution" costs to residential customers:



The CPT program links actual customer energy usage with specific GHG reduction targets, recognizing that energy usage by a customer is the primary driver of GHG emissions. Charging customers for this program based on their energy usage reinforces the same linkage to GHG emissions and therefore represents a fair and reasonable method for collecting any program costs not funded by shareholders or participants.

TURN feels very strongly about this issue. In recognition of the broad benefits expected from the CPT program, the Commission should either adopt the equal cents allocation approach proposed by TURN, DRA and Aglet, or defer consideration of the allocation issue to the next appropriate rate design proceeding for each utility.

IV. PG&E's Administration and Marketing Budget is Unjustified and Excessive

The PAD agrees with intervenor concerns in concluding that PG&E's proposed Administration and Marketing (A&M) costs are excessive.[21] Despite this admission, the PAD proposes to approve the budget in its entirety without modification. This outcome is unreasonable and should be rejected in favor of authorizing rate recovery for a reduced A&M budget.

PG&E's budget remains problematic for three key reasons. First, the methodology used to develop the revenue requirements for marketing ($12 million) is inconsistent with the traditional budgeting approach for other GRC revenue requirements. Second, the total budget is excessive relative to other comparable voluntary programs. Third, the level of the total budget is excessive relative to the level of CPT premium revenues and GHG reduction commitments expected during the relevant timeframe. As a result, the CPT program does not promise to deliver cost-effective GHG reductions.

The PAD suggests that PG&E's A&M budget "will decline after the first years of the program".[22] This statement appears to accept PG&E's unsupported prediction that the program administration overhead costs are likely to be reduced in the timeframe after the 3-year pilot.[23] While TURN hopes that this outcome will occur, we are chastened by our long history of litigating similar claims before the Commission. TURN has learned, the hard way, to disregard any non-binding utility assertion that costs will decline precipitously in the years after those covered by a particular application.

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[21] PAD, Page 12 ("While PG&E's A&M Expenses are out of proportion to the revenues it will generate from customers who opt for the CPT…")
[22] PAD, Page 16.
[23] Ex. 9, Page 16.

For example, TURN recently pointed out that, only two years after presenting forecasts of capital additions and operating expenses at Diablo Canyon as part of its steam generator replacement application, PG&E has now asked the Commission to bless dramatically higher numbers.[24] When TURN questioned the figures presented in the original application (A.04-01-009), PG&E vehemently defended those forecasts and criticized the positions of intervenors who suggested that the ultimate numbers could escalate. TURN's concerns turned out to be prescient while PG&E's optimistic projections were quickly forgotten by the utility.

In a similar vein, TURN fully expects that PG&E will propose substantial ongoing overhead expenditures if the CPT program continues beyond the demonstration period (perhaps even larger than those contained in this application). Therefore, the Commission should not assume any dramatic reduction in future unsubmitted budgets when considering the reasonableness of the current application. If the Commission wishes to make such an assumption, it should condition approval of the CPT on lower future A&M costs in the event that the pilot program is extended.

[24] Response of The Utility Reform Network to the settlement motion of Pacific Gas & Electric, the Division of Ratepayer Advocates, and other parties, A.05-12-002, September 20, 2006, pages 62-63.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Cory Oberdorfer, certify under penalty of perjury under the laws of the State of California that the following is true and correct:

I served the attached:

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by sending said document by electronic mail to each of the parties on the attached Service List to **A.06-01-012**.

Executed this December 4, 2006, in San Francisco, California.

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